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## FISCAL IMPACT REPORT

SPONSOR: Rodella DATE TYPED: 3/17/03 HB 62/aHTRC

SHORT TITLE: Increase Jet Fuel Tax Deductions SB \_\_\_\_\_

ANALYST: Reynolds-Forte

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	FY04			
	(76.4)	(83.3)	Recurring	State General Fund
	(*)	(*)	Recurring	Small Cities Assistance Fund
	(*)	(*)	Recurring	Small Counties Assistance Fund
	(54.0)	(58.9)	Recurring	Local Governments
	None	None	Recurring	State Aviation Fund

(Parenthesis ( ) Indicate Revenue Decreases)

(\*) The Department has no information regarding the amount of jet fuel subject to the Compensating Tax. It is assumed that amount is negligible.

The assumptions used for the Gross Receipts Tax impact were: 1) taxable base of about \$13.9 million based on FY04 revenue estimate for the State Aviation Fund; 2) 100% of taxable base subject to municipal taxes; 3) tax rate in municipal areas of 5.8125% (Albuquerque rate). The current law General Fund share of Gross Receipts Tax is diverted to the State Aviation Fund (estimated at \$500 thousand for FY03). FY03 amounts were then adjusted to 11/12ths of the full year impact due to the effective date of the bill and the one-month lag for filing and paying tax returns.

Relates to Appropriation in the General Appropriation Act

### SOURCES OF INFORMATION

Responses Received From

New Mexico State Highway and Transportation Dept.

### SUMMARY

Synopsis of HTRC Amendment

The House Taxation and Revenue Committee amendment to HB62 increases the gross receipts and compensating tax deduction for jet fuel from the current 40% deduction to a 50% deduction. The original bill proposed a 100% deduction. The HTRC amendment also adjusts the distribution to the State Aviation Fund to maintain the current level of revenue to that fund.

## **FISCAL IMPLICATIONS**

The House Taxation and Revenue Committee amendment to HB62 decreases the amount of gross receipts and compensating tax which will be paid on jet fuel by airline companies each year by \$142.2. The annual decrease of revenue of \$142.2 will decrease the state general fund by \$83.3 and the local governments funds by \$58.9. The FY04 impact will be \$130.4 revenue loss, \$76.4 to the general fund and \$54.0 to the local government funds.

### Synopsis of Original Bill

House Bill 62 changes the current gross receipts tax deduction and compensating tax deduction for jet fuel from 40% to 100%. This means jet fuel will be totally exempt from gross receipts tax and the revenues from the tax are eliminated.

The effective date for collection of the tax is July 1, 2003; the effective date for revenue distribution is August 1, 2003. This means that the funds impacted will receive only one month of revenues from this source in FY04.

### Significant Issues

Twelve months of this revenue was appropriated by both the LFC and the Executive for use in the Aviation Division of the State Highway and Transportation Dept. for their FY04 budget.

## **FISCAL IMPLICATIONS**

The FY04 eleven month estimated revenue loss from the Jet Fuel is \$759.4 which impacts the State, municipalities and counties. The first full year of revenue loss will be in FY 05 and is estimated to be \$868.7.

The State portion of the funds (\$458.3 in FY04 and \$525.0 in FY05) are used to fund the Aviation Division of the State Highway and Transportation Department. Approximately seventy-five percent of the Aviation Division funds are provided to community airports to use as matching funds for federal money available for airport construction.

The \$500.0 loss to the State Aviation Fund will result in a \$10 million plus decrease in funds available for airport construction projects each year. This revenue is used to match federal money. The match ratio is 5%: the \$500.0 in state funds leverages \$9.5 million of federal funds.

The \$10+ million per year of airport construction is mostly federal money and is subject to state and local gross receipts taxes.

Municipalities and counties will also be impacted by House Bill 62. Municipalities will have a revenue loss of \$262.8 in FY 04 and the counties will have a loss of \$38.3.

## **RELATIONSHIP**

House Bill 62 relates to House Bill 4 that appropriates the jet fuel revenues in FY04 for opera-

tion of the Aviation Division of the State Highway and Transportation Department. Approximately 75 percent of these funds are used by the Division to provide grants to communities to enable them to match federal funds available for airport construction. Revenues in House Bill 4 will need to be decreased and the Aviation Division expenditures, including grant funds, cut by \$458.3 if House Bill 62 is passed.

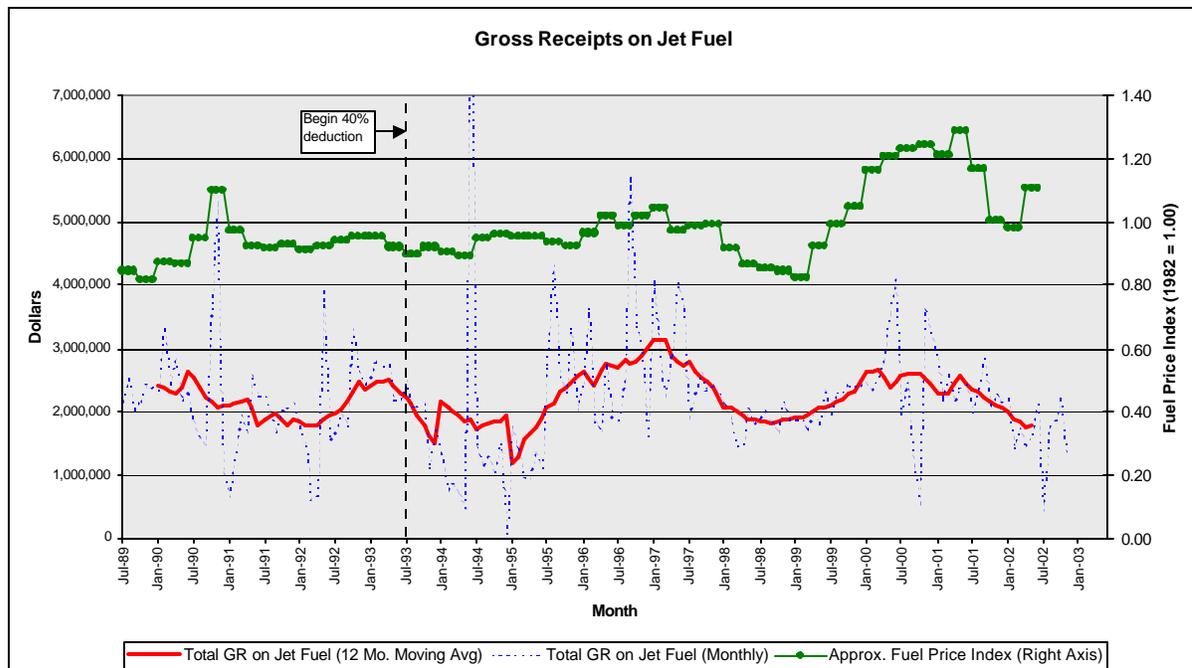
**OTHER SUBSTANTIVE ISSUES**

The State Highway and Transportation Department provided the following information:

- The price of jet fuel in New Mexico is not significantly higher than prices in other states, even after imposition of the current tax. The Aviation Division reports the following average prices in 2002:

	<u>Price</u>	<u>State Tax Imposed</u>	<u>Total Price</u>
Albuquerque	\$1.10	3.4875%	\$1.138
El Paso	\$1.14	none	\$1.140
Denver	\$1.12	3%	\$1.154
Las Vegas	\$1.24	\$0.03 per gallon	\$1.270
Atlanta	\$1.16	none	\$1.160
St. Louis	\$1.09	5.725%	\$1.152
Dallas	\$1.10	none	\$1.100
Baltimore	\$1.20	unknown	\$1.200
<b>Average</b>			<b>\$1.164</b>

- Fluctuations in jet fuel gross receipts (total, before deductions) appear to follow price fluctuations both before and after imposition of the current 40% deduction. It does not appear that imposition of the 40% deduction in 1993 resulted in any large increase in the amount of jet fuel sold in New Mexico.



**ALTERNATIVES**

- The State Aviation Fund could be held harmless by an additional, permanent distribution of a share of general fund gross receipts tax. The average level of jet fuel GRT revenue over the past 5 years was \$565 thousand per fiscal year, so the State Aviation Fund might be held harmless by a new distribution of 0.0417 percent of general fund gross receipts revenue. The hold harmless distribution could be added to Section 1 of the bill (Section 7-1-6.7).

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